

AD-A159 290 SAUDI ARABIA HAS THE ABILITY AND POLITICAL FORCE TO
INFLUENCE THE DECISIO.. (U) AIR WAR COLL MAXWELL AFB AL
P ISRAEL MAR 85 AU-AWC-85-161

AD-A159 290 SAUDI ARABIA HAS THE ABILITY AND POLITICAL FORCE TO
INFLUENCE THE DECISIO.. (U) AIR WAR COLL MAXWELL AFB AL
P ISRAEL MAR 85 AU-AWC-85-161

AD-A159 290 SAUDI ARABIA HAS THE ABILITY AND POLITICAL FORCE TO
INFLUENCE THE DECISIO.. (U) AIR WAR COLL MAXWELL AFB AL
P ISRAEL MAR 85 AU-AWC-85-161

UNCLASSIFIED F/G 5/4

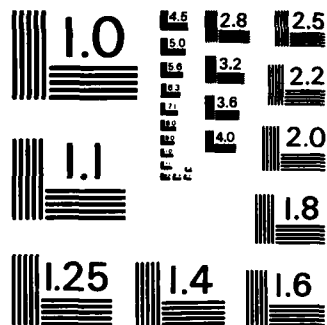
UNCLASSIFIED F/G 5/4

UNCLASSIFIED F/G 5/4

FILMED

FILMED

DTIC



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS-1963-A



AIR WAR COLLEGE

RESEARCH REPORT

No. AU-AWC-85-161

AD-A159 290

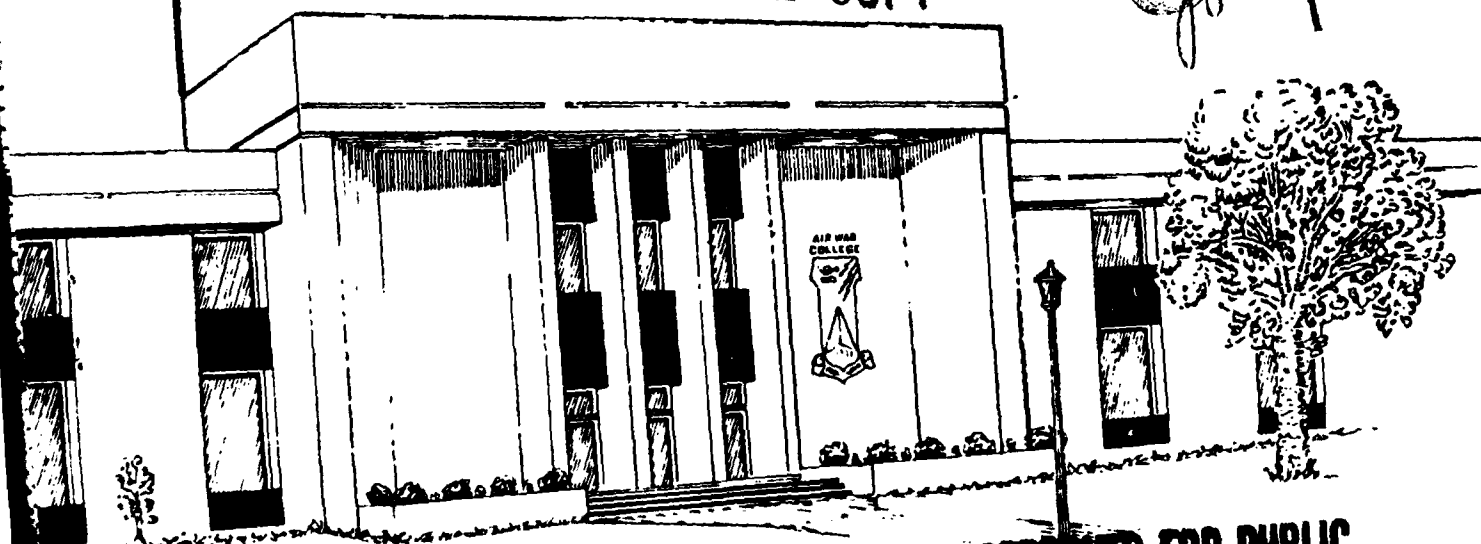
SAUDI ARABIA HAS THE ABILITY AND POLITICAL FORCE TO INFLUENCE
THE DECISION MAKING PROCESS IN THE WEST.

OR DOES SHE?

By LIEUTENANT COLONEL PARNES ISRAEL
ISRAELI AIR FORCE

DTIC FILE COPY

DTIC
SELECTE
SEP 19 1985
D



AIR UNIVERSITY
UNITED STATES AIR FORCE
MAXWELL AIR FORCE BASE, ALABAMA

APPROVED FOR PUBLIC
RELEASE; DISTRIBUTION
UNLIMITED

85 00 17 001

REPORT DOCUMENTATION PAGE

1a. REPORT SECURITY CLASSIFICATION Unclassified			1b. RESTRICTIVE MARKINGS		
2a. SECURITY CLASSIFICATION AUTHORITY			3. DISTRIBUTION/AVAILABILITY OF REPORT <div style="border: 1px solid black; padding: 5px;">This document has been approved for public release and sale; its distribution is unlimited.</div>		
2b. DECLASSIFICATION/DOWNGRADING SCHEDULE					
4. PERFORMING ORGANIZATION REPORT NUMBER(S) AU-AWC-85-161			5. MONITORING ORGANIZATION REPORT NUMBER(S)		
6a. NAME OF PERFORMING ORGANIZATION Air War College		6b. OFFICE SYMBOL (If applicable) DFR	7a. NAME OF MONITORING ORGANIZATION		
6c. ADDRESS (City, State and ZIP Code) Maxwell AFB, AL 36112-5522			7b. ADDRESS (City, State and ZIP Code)		
8a. NAME OF FUNDING/SPONSORING ORGANIZATION		8b. OFFICE SYMBOL (If applicable)	9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER		
8c. ADDRESS (City, State and ZIP Code)			10. SOURCE OF FUNDING NOS.		
			PROGRAM ELEMENT NO.	PROJECT NO.	TASK NO.
11. TITLE (Include Security Classification) Saudi Arabia Has the Ability and Political Force to Influence the Decision Making Process in the West, or Does She?					
12. PERSONAL AUTHOR(S) Lt Col Parnes Israel, Israeli Air Force					
13a. TYPE OF REPORT Research		13b. TIME COVERED FROM _____ TO _____		14. DATE OF REPORT (Yr., Mo., Day) March 1985	
15. PAGE COUNT 52					
16. SUPPLEMENTARY NOTATION					
17. COSATI CODES			18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number)		
FIELD	GROUP	SUB. GR.			
19. ABSTRACT (Continue on reverse if necessary and identify by block number) This work represents the author's personal research into the real power that Saudi Arabia has to influence the West in the area of decision making. In this research report the author sets forth his beliefs about how best to assess the true extent of Saudi power, taking into consideration Saudi geo-politico-demographic characteristics, how the centralization of power in the hand of the royal family ties in with the discovery and exploitation of oil, the component of strength and weakness, her position in the Arab world and the ability to use oil as a weapon politically. He outlines the asymmetry in Saudi/U.S. relations and attempts an analysis and forecast. His conclusions are revealing.					
20. DISTRIBUTION/AVAILABILITY OF ABSTRACT UNCLASSIFIED/UNLIMITED <input type="checkbox"/> SAME AS RPT. <input type="checkbox"/> DTIC USERS <input checked="" type="checkbox"/>			21. ABSTRACT SECURITY CLASSIFICATION Unclassified		
22a. NAME OF RESPONSIBLE INDIVIDUAL Dr. Robert Begard			22b. TELEPHONE NUMBER (Include Area Code) (205) 293-7074		22c. OFFICE SYMBOL AWC/DFR

AIR WAR COLLEGE
AIR UNIVERSITY

SAUDI ARABIA HAS THE ABILITY AND POLITICAL FORCE TO INFLUENCE THE DECISION MAKING
PROCESS IN THE WEST.

OR DOES SHE?

by

Parnes Israel
Lt Col, IAF

A RESEARCH REPORT SUBMITTED TO THE FACULTY
IN
FULFILLMENT OF THE RESEARCH
REQUIREMENT

Research Advisor: Lt Col Harry Johnson

MAXWELL AIR FORCE BASE, ALABAMA

March 1985

TABLE OF CONTENTS

CHAPTER	PAGE
DISCLAIMER-ABSTAINER.....	ii
ABSTRACT.....	iii
BIOGRAPHICAL SKETCH.....	iv
I SAUDI ARABIA--GEOGRAPHY, POPULATION, HISTORY.....	1
II CENTRALIZATION OF POWER IN THE KINGDOM.....	7
III OIL DISCOVERY--THE PROCESS OF ACQUIRING POWER.....	10
IV COMPONENTS OF STRENGTH AND WEAKNESS.....	12
V SAUDI ARABIA IN THE ARAB WORLD.....	22
VI OIL AS A POLITICAL WEAPON.....	25
VII ASYMMETRIC SAUDI/U.S. CONNECTIONS.....	28
VIII THE FUTURE--ANALYSIS AND FORECAST.....	35
IX CONCLUSION.....	38

Accession For	
CR&I	<input checked="" type="checkbox"/>
TAB	<input type="checkbox"/>
Unbound	<input type="checkbox"/>
Classification	
Distribution/	
Availability Codes	
Avail and/or	Special
A-1	



DISCLAIMER-ABSTAINER

This research report represents the views of the author and does not necessarily reflect the official opinion of the Air War College or the Department of the Air Force.

This document is the property of the United States government and is not to be reproduced in whole or in part without permission of the commandant, Air War College, Maxwell Air Force Base, Alabama.

AIR WAR COLLEGE RESEARCH REPORT ABSTRACT

TITLE: Saudi Arabia Has the Ability and Political Force to Influence the Decision Making Process in the West. Or Does She?

AUTHOR: Parnes Israel, Lieutenant Colonel, IAF

This work represents the author's personal research into the real power that Saudi Arabia has to influence the West in the area of decision making. In this research report the author sets forth his beliefs about how best to assess the true extent of Saudi power, taking into consideration Saudi geo-polito-demographic characteristics, how the centralization of power in the hands of the Royal Family ties in with the discovery and exploitation of oil, the components of strength and weakness, her position in the Arab world and the ability to use oil as a weapon politically. He outlines the asymmetry in Saudi/U.S. relations and attempts an analysis and forecast. His conclusions are revealing.

BIOGRAPHICAL SKETCH

Lieutenant Colonel Parnes Israel is a fighter pilot from the Israeli Air Force. He received his wings in 1968 upon graduation from the Israeli Air Force Academy. He has spent most of his career in tactical units and has held numerous command positions. He fought in the Attrition War between Egypt and Israel in 1969-70, the 1973 Yom Kippur War and in the Lebanon War in 1982. During the latter he served as a fighter squadron commander.

Lt Col Parnes is a graduate of the Israeli Air Command and Staff College, Class 1975, and soon to be a graduate of the United States Air Force Air War College. Prior to attending Air War College as a student in Class 1985, he commanded an IAF fighter squadron, gaining considerable operational experience. He is currently working on his bachelor's degree in liberal arts at Auburn University at Montgomery, while completing Air War College. He has been interested in analyzing the Saudis' "real power" since the 1973 "oil crisis."

Saudia Arabia Has the Ability and Political Force to Influence the Decision
Making Process in the West.

Or Does She?

INTRODUCTION:

We live in a world at the end of the 20th Century that needs energy in daily growing amounts. In this world where the population is also growing steadily, the ability to achieve self-sufficiency in inexpensive energy has become a high priority value. Without sufficient energy resources, no country can maintain national sovereignty, and the fate of any country which cannot is inevitably decline and degeneration. The cheap energy source that is easy to produce and that exists today in a quantity that makes supply to anyone with the money to buy it practical is petroleum. Oil is the only resource in use today around the globe that is both easy to produce and relatively affordable while at the same time not plagued with dangerous side-effects. There are substitutes for oil, such as nuclear fission, solar energy, coal and others, but each of these has drawbacks that makes widescale use rather risky until the technological problems can be ironed out. There is no doubt that for the immediate future oil will continue to be the cheapest and most widespread energy resource on our globe.

This situation has created a phenomenon in the last 30 years the world has never before observed--weak, backward, even primitive states that had for generations lagged behind the industrialized nations suddenly possessing immense economic power as a result of their sole natural resource: petroleum in mind-boggling quantities.

Now, for the first time, they are in the "political power game," and they operate from a "powerful" position because they can shut off this flow of relatively cheap energy to the West. Now, they find themselves courted by the great and developed nations. The accepted political balance has been tipped, and the power to influence diplomatic processes between other states is a most important result of discovery of oil under desert sands.

At the center is one country above all others--Saudi Arabia, a primitive, desert state-- one which has raced in a very short time to the status of economic superpower. Centralized in her hands--enormous wealth. By using the treasures hidden in her ground in a calculated way, she finds herself transformed from a dwarf to a giant nearly overnight, in historical perspective. This state that until recently bought her right to exist only because she was the "Keeper of the Holy Places of Islam" became the main body in the Arab Union, a union of Arab states that determines and directs national policies in the Arab world.

My goal in this work is to test the real power that Saudi Arabia has, focusing attention on strengths and weaknesses, advantages balanced against disadvantages, and, as a final result of the analysis of this data, attempt to determine her true ability to influence the decision making process in the Western Hemisphere. I will divide the work into the following chapters:

- I) Saudi Arabia--Geography, Population, History
- II) Centralization of Power in the Kingdom
- III) Oil Discovery--the Process of Acquiring Power
- IV) Components of Strength and Weakness
- V) Saudi Arabia in the Arab World
- VI) Oil as a Political Weapon
- VII) Asymmetric Saudi/U.S. Connections
- VIII) The Future--Analysis and Forecast
- IX) Conclusion.

Chapter I

SAUDI ARABIA--GEOGRAPHY, POPULATION, HISTORY

1) Geography: Saudi Arabia is the largest country among all the Arab states. Her size is 830,000 sq mi or 2,331,100 sq km. This is a desert country between the "Persian Gulf" and the "Red Sea." Saudi Arabia shares common borders with Jordan and Iraq to the north; Kuwait, Oman, the United Arab Emirates to the east; and Aden and Yemen in the south. For all her vast size, most of her territory is dry, desolate desert, desert in which only nomads could live. Scattered oases make settled life possible for some, but agriculture as a way of life is possible only in some areas along the coast. (1-A)

The country is divided into four main zones:

A) Hijaz: The region lies along the Red Sea. In this domain lie most of the holy cities of Islam--Mecca and Medina, and the main port of the Kingdom--Jiddah. This region is relatively populated. Further, it is the gate for other Moslems from all over the world. The population is relatively open to external influence and contains a relatively high percentage of the country's intellectuals.

B) Najd: This is the main and center district in the Kingdom, completely high and arid desert. The population consists of nomad tribes that have preserved the caravan commerce between the Persian Gulf and the Red Sea. In this region is the capital city of Riyadh. The citizens of this region have been throughout the history of the Kingdom the main power of the King. For the most part, they are proud and independent Bedouins.

C) Al-Hasa: This region extends along the Persian Gulf coast. In the past this region was very famous because of the depth of its watertable--a fact that made commercial date-palm cultivation the main occupation through the 1930s. After this time the region changed its face completely--oil was discovered, and this became the rich region, constantly since then undergoing modernization.

D) Asir: This is the region to the southwestern part of the country. The common border here is shared with North Yemen. This region is indisputably the best in Saudi Arabia for agricultural products because of the comfortable climate and the summer rains. In the past the region was a constant source of disagreement between the Saudis and the Yemenis.

2) Population: In 1981 the population of Saudi Arabia was estimated as being 8.6 million, of whom 2.5 million were foreigners. Most of the population is Arabic, and only a small minority are Afro-Asians. The central (and virtually only religion) is Islam. Half of the population is illiterate, and two-thirds of the work force is made up of foreign workers. In accord with Islamic law, the rights of women are constrained. (See Table 1 (From 1980))

3) History: The father and creator of the Kingdom was Abdul Al-Aziz Al-Saud (ibn-Saud) who was born in 1880. He was born in Riyadh as a prince, but he and his family were forced into exile in Kuwait when he was a child. His childhood passed unremarkably, but he continued to believe that he was chosen to return and reestablish the Saudi Emirate. When he reached maturity, he collected around himself a group of younger followers and began a career of raids and robberies that eventually provided him with a base of sufficient power to enter and conquer

(See Table-1) The seriousness of this situation is pointed out by the fact that of the 63 people who were put to death in the abortive attempt to take over the Holy Ka'abah at Mecca in 1979, 23 were foreigners. (9 from Egypt; 6 from South Yemen; 3 from Kuwait; and 1 each from Sudan, North Yemen, and Bahrain)

C) The Shiah Moslem Minority in Al-Hasa: In the Al-Hasa region, wherein lie the preponderance of the Saudi oil fields, there are some 300,000 Shiah Moslems. The success of the Iranian revolution and that country's close physical presence in this region is a constant source of worry for the Saudi rulers. They sense that in this group are the possible sources of organized resistance. In the recent past, there have been two uprisings that have been put down by the National Guard. The fact that 20% of all the oil workers belong to this Shiah minority demands full attention of the Royal Family, and it is a source of internal weakness.

D) Military Power: The rapid growth of a huge military power has resulted in the threat of a military takeover to change the regime. This potential for revolution has been addressed by dividing the military into three separate branches. The first is the "Regular Army." The second is the "National Guard." And the third is the "Port and Border Guards." The idea is to spread the whole national military power among these three bodies in an attempt to strike a balance among them that would render any one or two incapable of toppling the regime. Of particular interest among these three bodies is the National Guard, which consists predominantly of volunteers from the Najd tribes. Their duty is to protect the "internal peace" in the Kingdom, and particularly to keep all the foreigners "out of the game." The relationships among

alleged corruption resulting from her association with the "corrupt western world." Beside these main potential enemies, the Saudis have a constant fear of Israel, unsteady relationships with Jordan, and a constant feeling that the U.S.S.R. has intentions of making the Soviet bear's presence felt in the area.

Saudi leaders are spending huge amounts of money to counter these potential threats. The military expenses that were \$325 million in 1967-68 jumped in 1981-82 to \$24 billion; in 1984-85, this figure has soared to \$45 billion. Despite these huge expenses, the main military problems are that the oil fields are exposed and vulnerable to attack at any time. This situation demands that an outside power assure their security, a power that has a vested interest in maintaining the status quo.

B) Foreigners: The Saudi labor market is saturated with foreign workers. This situation is the result of the enormous development plans undertaken by the Saudis and by the complete lack of a technological base until recent years. In the Kingdom today live some 2.5 million foreigners; they make up 33% of the "manpower" and 70% of the "musclepower." They have no rights and are concentrated in separate districts, particularly in the big cities and the developed districts. They are under tight supervision by the National Guard at all times, and they receive no benefits from the role except for their pay. They, in contrast to those around them, are relatively open to new ideas, and under certain circumstances they could constitute a real threat to the regime. The Saudi market will remain dependent on these foreign workers until at least the year 2000. This situation is a cause for concern to those in power because they understand the threat very well.

A) Military Weakness: The military weakness of Saudi Arabia is the result of a huge country, long borderlines, and a disproportionately small population. Saudi Arabia lacks technicians, modernization, and is surrounded by many potential enemies. Let us look briefly at these various potential enemies:

South Yemen Republic (Aden): South Yemen is a radical and Marxist country with a steady Soviet and Cuban presence. The country supports the "Revolution Front" in Oman and the "Militant Front" in North Yemen. It is a country that has a strong army and a long-standing dispute with the Saudis over their common border.

Republic of North Yemen: North Yemen appears to be a sister country, but it is indeed a country with a long border dispute with the Saudis. It is also a country that has shown signs of undependability and has sometimes moved toward the Soviet camp. The main Saudi fear is possible unity between the two Yemens, a unity that would spell real trouble for the southern border and shipping on the Red Sea.

Ethiopia: Here is another country that is pro-Soviet and which poses a constant threat to the Bab el Mandeb straits and shipping on the Red Sea.

Iraq: This is a radical country, a small "military superpower" in this region. There has been a long-standing dispute between the Iraqi leaders and the House of Saud.

Iran: This is probably the most radical of all the Islamic nations, one which is most likely to take up the cause of a "Jihad" or Holy War. The present regime in Iran detests the role that Saudi Arabia is playing on the world stage because of the country's

D) The U.S.S.R. in the Area

A nightmare for any decision maker in the Western World is thinking about the possibility of the U.S.S.R.'s taking control of the "oil fields" in the "Persian Gulf." In the past it seemed very unrealistic, but today, after the Soviets have taken control of neighboring Afghanistan and with the change in Iran's role, the U.S.S.R.s' physical presence in this area is a fact that cannot be ignored. Saudi Arabia is very much disturbed by the Soviet presence, but not so much so that they cannot see the realistic possibility of selling oil to the East Bloc. Thus, the ability to "change policy" with the situation to meet her national needs is a component of Saudi national strength. The immediate result is that the Western countries will pay more money for less oil to maintain a measure of influence in the area.

The Components of Weakness

Saudi weakness seems to be such that any external tremor or any internal crisis holds the possibility of very easily destroying all the gains made in the last 50 years. There is no doubt that if Saudi Arabia were to lose her oil fields she would disappear from the international stage. The leaders understand this reality very well. For this reason, they have devoted many of the billions of petrodollars to shoring up their regime at home. Very briefly, I will touch on the main points of Saudi weakness.

yet found a way of absorbing. Developed countries that were in the process of building an interdependent integration slipped backward many years in their efforts. It is important to mention this here--in the first crisis, the profit per barrel jumped from \$1.57 to \$7.30, while in 1980 the profit was \$29.00 per barrel! No doubt, the fact that most of the industrial countries dependent on the "OPEC oil" gives the Saudis a "power position" and an ability to determine the quantity of production and the income level according to the political and economic changes in our world today.

C) An Economically Strong and Stable West

The great profits that are collecting in the hands of the Saudis are in and of themselves a huge power, a power that could bring many of the Western countries to their knees. But most of this money is invested in the very countries that would or could be damaged, the industrialized, developed countries which have strong economies. This huge investment, then, will continue to make a profit only if those countries in which it is invested continue on their way with economic prosperity. It is in the Saudi interest to see the property, the assets, and the local currency become more valuable. In saying this, I reemphasize that an economically strong and stable West is a value for continued Saudi strength. (4-E) (Table No. 4)

with the other members of OPEC. These two factors, cheap oil and a large quantity, led to real difficulties for the other members to market their oil, particularly Libya, Algeria, Kuwait and Nigeria (who reduced production by 65%). Nigeria decided unilaterally to reduce her oil price from \$40.00 to \$34.00 a barrel without consulting any of the other OPEC members. It was the first time that the unity of OPEC was under a real threat, and for a time it appeared that a real price war would break out. Seeing this situation, the Saudis entered the game. They demanded all the other OPEC members lower their price per barrel \$2.00-3.00; they themselves increased their own oil price by \$2.00 per barrel while at the same time decreasing their production to 8.5 million barrels per day. By doing this, they immediately brought stability to the international oil market, adding stability to the OPEC member nations, increasing their profits, and sending a clear message that Saudi Arabia is ready to change her policy if it means maintaining OPEC unity. (4-B) As I mentioned, a strong, unified OPEC is a second major component of strength in Saudi Arabia's power. (Table 2 and 4-A)

B) Complete Dependency on Oil by the Industrial Countries:

Another component of Saudi Arabia's strength is the dependence of the industrialized nations on a steady flow of oil to run their economies. For example, a steady rate of growth that was 4.7% per year in these countries until 1973 fell after the 1973 "Oil Crisis" to 2.3% per year; that led to an increase in the unemployment rate from an average of 2.8% to a 1981 average of 7%. Another interesting set of figures is that the Organization for Economic Cooperation and Development (OECD) lost \$350 billion in 1980 and \$500 billion in 1981. The first "Oil Crisis" was a kind of blow that the world market had not

Saudi Arabia possesses 40% of the proved OPEC reserves, and her share of OPEC production between 1974-1979 was 25-33%. Her share was 33-50% between 1980-1981. This unique cartel consists ultimately of two main groups: those that cannot lower their rate of production because they need the money to fuel their economy and those whose production has produced a surplus to meet their internal needs. The latter group has the ability to invest some of their surplus abroad. Only three countries, Saudi Arabia, Kuwait and Libya belong to this latter group. They are unique in that they are the only nations which can reduce their production without disrupting their economies. Saudi Arabia holds a unique and dominant status in this organization, according to her decisions this organization will stand or fall. Saudi Arabia, as a dominant power in this cartel, produces steady profits only when this organization is strong and unified--under this set of conditions OPEC has the ability to influence directly the lives of billions of people worldwide, thus giving Saudi Arabia a unique political status in the international political arena. It is no small wonder that in a few cases when other members tried to achieve more profit because they found themselves facing monetary shortages, Saudi Arabia has exerted all her power and influence to maintain unity within the organization, and, in the final analysis, to protect her own best interests.

My example of the techniques the Saudis use is the following involving Nigeria: In 1981 (after the "huge jump" in prices in 1980) the Saudis were supplying 10 million barrels per day, and there was sufficient oil in the international oil market. After the 1980 price increase, the demand for oil began to moderate, and consumption went into a constant reduction. The Saudis' oil was cheaper in comparison

CHAPTER IV

THE COMPONENTS OF STRENGTH AND WEAKNESS

Strength Components: Saudi Arabia's power derives from the fact that she is the largest oil producer in the free world, and under her sands lie the largest proven oil reserves. Thus, Saudi Arabia is able to influence other countries in the Western world. The ease with which oil is produced make Saudi Arabia unique, even in comparison with other larger oil producers. Even so, her weakness in many other domains demands the Saudis to conduct a safety policy, a policy that helps them build some secondary power components:

A) OPEC: (The Organization of Petroleum Exporting Countries)

OPEC is an organization that was established in 1960 to protect the producers from the large international Western companies. Those companies (in those days) decided according to their needs what the price of oil should be and how much would be produced. This cartel includes countries that joined together for one purpose--to make the maximum profit possible from the treasure that they have. The countries that belong to this cartel are the following:

Saudi Arabia	Kuwait
Iran	The United Arab Emirates
Libya	Algeria
Qatar	Iraq
Venezuela	Ecuador
Nigeria	Gabon
Indonesia	

Saudi Arabia is the leading nation among those making up this body, and eventually she will lead this cartel according to her needs and wishes.

*1943--The U.S. government establishes a new company, the "Oil Reserve Company," whose mission is to concentrate the production in Saudi Arabia. After a short time, the name is changed to ARAMCO, the Arabian-American Oil Company.

*1950--An oil pipeline, 1,040 nautical miles in length, is opened from the oilfields in Saudi Arabia to Sidon in Lebanon. Oil production reaches 26 million tons per year.

*1951--Oil production hits 36 million tons. Of this production, 14.5 million tons are loaded in Sidon.

*1954--Oil production reaches 46 million tons per year. Cost of production is 10 cents per barrel; the oil is sold to the U.S. government for prices ranging from \$1.03-\$1.13 per barrel. The first estimate of the oil reserve is 19 billion barrels.

*1955--Oil production hits 355 million barrels per year; oil consumption in the Kingdom is 1.75 million barrels per year. Profit to the Kingdom is \$340 million.

*1962--The national oil company, PETROMIN, is established.

*1972--The Saudi government obtains 25% of ARAMCO's shares.

*1973--Oil production rises to 2.77 billion barrels per year; profit rises to \$4.33 billion.

*1974--The Saudi government obtains 60% of ARAMCO's shares. Profit this year from oil is \$19.5 billion.

*1975--ARAMCO is nationalized, and Saudi Arabia undertakes her first "Five Year Development Plan 1975-1980" at a cost of \$144 billion.

*1980--Saudi Arabia undertakes her second "Five Year Development Program 1980-1985" at a cost of \$253 billion.

*1981--Profit this year from oil is \$153 billion.

Thus, you can see in highlight form the development of the enormous economic power that Saudi Arabia has at her disposal. This wealth certainly makes Saudi Arabia a force to be considered in the international arena.

CHAPTER III

OIL DISCOVERY--THE PROCESS OF ACQUIRING POWER

The history of the discovery and development of oil production in Saudia Arabia is a long and gripping story that actually started before Saudi Arabia became an official state. This affair started during WW I, when Ibn-Saud was still only the Sultan of Najd, struggling against his neighbor-enemy, the Sherif Hussein from Mecca. Space limits the treatment of this process, but I shall outline the highlights:

*1915--Ibn-Saud signs a contract with the United Kingdom (U.K.) allowing them to explore for petroleum in the Najd District. In return, the U.K. recognizes Ibn-Saud as ruler of Najd and undertakes to pay him a monthly support of 5,000 pounds sterling.

*1923--The King gives the "East General Syndicate" the privilege to search for oil in the Al-Hasa District. The company sends a geologist to this region, but he does not find anything and exploration halts.

*1927--Ibn-Saud conquers Hijaz and needs more money to placate the tribal leaders in his new territory.

*1931--Oil is discovered in Bahrain. The King opens another opportunity to compete for the privilege of exploring for oil in Saudi Arabia.

*1933--The Standard Oil Company, an American firm, acquires the privilege in exchange for the payment of 100,000 pounds sterling. The Texas Oil Company joined the partnership by paying \$3 million in cash and \$18 million in other payments.

*1938--The first oil is discovered in commercial quantities in Dammam.

*1939--The first oil tanker loads in Ras-Tanurra.

*1940--Production from the Dammam Field reaches 30,000 barrels/day. The King demands \$6 million per year from Standard Oil, which accedes.

E) Big Businessmen: This group is the product of the last 30 years. They can influence the King only on the economic level. This group, including international scale businessmen--those who invest their money both within Saudi Arabia and abroad--have friendly connections with extranational state leaders.

As I mentioned at the outset, from an external point of view, the relationships among the five main groups seem very good and productive, and the cohesiveness within the Royal House is the main basis for political power. But under the surface there always exists the struggle to gain and hold more and more power (or, at least, not to lose the power they had in the past). Modernization is a process and a threat, as well as a challenge. This is particularly true in regard to the tribal heads and the leaders of the religious establishment, two groups that have traditionally held great power and that have at all times played a key role in the regime. They find themselves engaged in a real "struggle" (so far, a quiet struggle) against "progressive groups" that want to fit Saudi Arabia into the late 20th Century. The struggle, then, is between progress on the one hand and the desire to protect the old conservative values on the other. (2-A)

B) The Religious Establishment: The "religious Immams," who comprise a conservative basis in the Kingdom, exert great influence on the King. Making decisions contrary to their opinions is a long process that demands constant compromises. The law that rules the Kingdom is the "Shariyah" or Islamic Law. The Kingdom has no other constitution, and that means that this group has a clear and open door to the Royal Palace. The duties of these priests are to keep complete strict compliance with the teachings of Mohammed on the personal level and to keep the "Islamic consciousness" and the legitimacy of the Koran as the basis on the social level. At the heart of this lies the Wahabi sect--previously mentioned in this paper--a radical and conservative sect in Islam.

C) Tribal Heads: This is the third strong group. This group includes all the tribal heads who hold tradition, fighting with the king, and their relations to him ever before their people. Throughout the years, royal relations with this group have always been complicated and demanded constant attention, generosity, and systems of conciliation and negotiation. From these tribes, the King has traditionally drawn most of his strength and internal power.

D) Advisors: This group is very limited in that they are not all Saudi in origin. These people hold influence as a result of long loyalty and friendship without "fence." Their duties are to take care of defined matters and to solve emergency problems that might suddenly arise, matters that the King thinks best kept away from Royal Family eyes.

CHAPTER II

CENTRALIZATION OF POWER IN THE KINGDOM

Political power in Saudi Arabia is concentrated in a narrow circle--the Kingdom's "Royal House." Those belonging to this circle identify with their duty; they are ready to support the King and to uphold his rule. The King in this system seems omnipotent, but, even so, in his decisions he considers certain "power groups," which wield great power and, ultimately, determine the "heir apparent." There are essentially five such groups:

A) The Princes: These are all relatives of the king. They hold positions of power in the Kingdom, concentrating in their hands most of the political activity; important decisions in the Kingdom are not made without considering their desires. This group is concerned with the future, as evidenced by marriages between and among the different families.

The princes are ranked according to three criteria:

- 1) The most important criterion is rank, descending through the mother.
- 2) The next criterion is that of age, the senior and, presumably, more experienced holding higher rank.
- 3) The last criterion determining rank in the royal hierarchy is that of educational degree held, counted only recently after many of the princes began to study abroad.

Riyadh. He killed the governor and his local force and declared the establishment of the Saudi Emirate. From this day for the next 30 years, he began to unite the divided kingdom. Wielding his sword ceaselessly, he hit the Shamer dynasty, taking control of the Najd District. Later he drove the Turks from Al-Hasa; he drove Hussein from Hijaz in 1924 and two years later took control of half of the Asir District. Ibn-Saud was the first to succeed in compelling an authoritative force on the tribal federation that could be called the "Saudi Nation." By using all means at his disposal, such as "diplomatic marriages," (during his life he had more than 80 wives, though never more than four at once) he forced his desire on most of the tribes, using pacts and negotiations as tools. When those who disagreed with him refused to accept his authority, he compelled them to fight, and, after their defeat, killed their leaders until they had no choice but to join his forces.

Ibn-Saud connected himself from his beginning as a national leader with the Wahabi sect of Islam. This sect, created by Muhamad Ibn-Abdul Wahab, was essentially based on ascetic behavior, satisfaction with only scant material goods, and distaste for any kind of luxury. This movement was very well fitted to the primitive tribes whose home was the arid desert. They joined Ibn-Saud with great enthusiasm, and the King, by marriage to women of the sect, established a long, close connection between the "Royal House" and those believers. During the intervening years, by giving almost unlimited powers to their leaders--the "Ulema," he strengthened them, and they became one of the strongest branches in the Kingdom. When Ibn-Saud died in 1953, he left behind an enormous family that runs the kingdom as a family affair.

the "main bodies" and among their commanders are steady sources of tension and instability.

E) The Process of Modernization: The fast move from the 18th to the 21st Century is something that demands a heavy price. At the same time, it creates fermentation and tension at nearly all social levels. The rapid changes come in complete contrast to the radically conservative way of life of the Saudis and to their traditional systems of value that are the bases for the present rule. This process creates alienation and feelings of discomfort and could lead to political "shakiness," as well. The "Khomeini example" from the north side of the Gulf was a harbinger of what could take place in the Kingdom if this process continues at this fast pace. Western culture poses a real threat to the religious leaders and the tribal heads. These people have held roles of enormous power and prestige in Saudi society for generations, and they will only yield this status if it is wrested from them. Any that they yield will be because they had no choice in the matter. The instability that Saudi Arabia faces today is something that is directly connected to any regime that tries to change a traditional way of life in a very short time. It demands a great deal of attention and sensitivity, and it poses a very real internal threat.

F) The Middle Class: The Saudi "middle class," which would be termed an "upper class" in any other country, is a class completely lacking in political power and without an ability to influence the decision making process. This class does not have the right to publish its opinions or to organize itself in any independent frame. It is a class that continues to grow, to become fluent in the cultures of other nations, and which has legitimate ambitions to receive its share of

political power and influence.

G) The Absolutist Regime: There are differences of opinion among the family members as to how Saudi Arabia should move forward. Should the country adopt a policy of rapid development and a systematic foreign policy or should it continue to pursue the conservative traditionalism, resulting in pro-nationalism and isolationism? These are the issues to be resolved, and the struggle in the Royal Family is another inherent instability.

H) Assets in the Hands of the Elite: All assets are concentrated in the hands of one family. The system of property division that is completely appropriate to the year 1750 is still the common way in Saudi Arabia to this day. Thus, the gap between the classes is very great, and it could lead to a real attempt to change the distribution of wealth by force, resulting in the overthrow of the present rulers.

I) Traditional Rivalries: There are traditional rivalries existing in Saudi Arabia between the traditionally "pure Arabs" from Najd and the "progressive and educated" people from Hijaz. Beneath the surface though they are, they are still there and pose a source for additional tension and instability. (4-F) (3-A)

CHAPTER V

SAUDI ARABIA IN THE ARAB WORLD

The process by which Saudi Arabia was first established and then began to acquire power among the Arab countries is a process that parallels the discovery and exploitation of oil. From this beginning came the power that was to be accrued later. At present, the Arab world is divided into roughly two groups. The first consists of the so-called "radical" countries, the second of the "moderates." The difference between these two groups lies in how they see the approach to the matter of the existence of the state of Israel. The former group is in favor of immediate military action that will expunge Israel from the region, no matter what the cost might be in terms of blood and money. They see force of arms as the answer to their desire to annihilate Israel. The latter group prefers to look forward to a time when there is Arab unity and solidarity they press their goal. For them time is not of the essence; their goal is the principle of the matter. Saudi Arabia belongs to the moderate group, and, as the richest country in the Arab world, she wields a great deal of influence. Her leaders have understood from the beginning that they would have more power and influence if the Arab world were united. To do this they play the role of "patron," supplying vast sums of money to those countries and organizations that have refused to negotiate with Israel, to put pressure on the other Arab states to bind them to support the "Arabic issue," and, where they feel it necessary, to threaten the industrialized countries as representatives of the "whole Arabic nation."

The fall of Iran into the hands of Khomeini and his fanatic followers, along with the Egyptian-Israeli peace agreement, completely devastated the Saudi attempts to unite the "Arabic world." Iran, formerly the ally, became a radical country and a constant threat on the eastern side of the Kingdom. The fact that during the last five years Iran has been engaged in a murderous war with Iraq has done little to reduce the existence of this threat. On the other hand, the peace agreement between Israel and Egypt pushed the Saudis to a point they did not wish to reach—a "decision" point where they were obliged to decide whether they were going to support Egypt, a country that represented a moderate line and looked to the U.S. as a keyplayer in bringing an end to the Arab-Israeli conflict or whether they would support the "terror organization" and the "refusal countries" who condemned Egypt and called for an absolute boycott of Egypt by the whole "Arabic world." To make this decision, the rulers had to consider what the best way was for Saudi Arabia; that is to say, which course of action would pose the least danger. After 16 months of hesitation, the Saudis chose to join the "boycott." Even this step was in absolute contrast to their "foreign policy" tradition--abstaining as much as possible from any polarization in the Arabic world. This is a very good example of a basic weakness of Saudi Arabia in the Arabic world and creates real fear of "terrorist organizations" and states that completely depend on Saudi money and support. The peace agreement is another example of the insecurity of the Saudis' position. From the beginning they rejected this process, but, even so, they did not succeed in pressuring Anwar Sadat to change from his original plan. The Fez Conference in 1981 is my last example to show the basic weakness of the Saudis to influence

the course of events in the Arabic world. In this Arabic "Summit Conference," in November 1981, King Fahd (at this time only Emir Fahd) brought a Saudi plan in an attempt to solve and conclude this issue of internal Arab problems in Lebanon. Under the terms of this plan, Saudi Arabia would be the main power that could influence all the forces in the country. The "summit" that could have been remembered as the "Emir Fahd summit" suffered two painful blows. The first was when the Syrian leader, Hafez Assad, cancelled his arrival one day before the conference was to start, a very "drastic step" in the "internal Arabic diplomacy." The second blow came when the members of the conference rejected the Saudi plan and instead of achieving agreement it ended in a very "noisy dispersal." Syria sent a clear sign to the Saudis about how their power is viewed by other Arab states and about their duty in the Arab world. Saudi Arabia will continue to play a significant role in the Arabic world, primarily because of her enormous wealth enables her to share the crumbs from her table with the less wealthy nations and, thus, exert a certain measure of control. Her main policy is a constant attempt to find the "gold line." As my examples show, when a serious breach develops in the Arabic world, Saudi Arabia will throw her weight to the side which she perceives to be the most likely to prevail--the Saudis never stand against the "strong side."

CHAPTER VI

OIL AS A POLITICAL WEAPON

Using oil as a political weapon has become very common in recent years. In the beginning, the Arab nations used this weapon simply to convince the Western countries to drop their support for Israel, but, more recently, they have used it to squeeze a greater profit from the sale of oil to the West. The basic idea, to use an "oil boycott" if the circumstances demand it, has become increasingly difficult in recent years, particularly since the Arab nations have themselves become dependent on the import of Western technology and manufactured goods, as well as foodstuffs, to say nothing of the cash flow represented by the petrodollars, petrofrancs, petropounds, petromarks, etc. This has led directly to the second level--wild increases in oil prices without any economic justification. Here is a recapitulation of the significant use of oil as a weapon.

A) Suez Crisis-1956:

--Nasser punishes the U.K. and France by closing the Suez Canal to any oil movement from the Middle East. At this time, the oil flow from the Middle East to Europe is on the order of 100 million tons per year, equal to 75% of European consumption.

--Saudi Arabia declares a "separate boycott" against France, the "Friend of Israel."

--The U.S. and Venezuela multiply their oil export to Europe; by themselves, they supply 52% of all the consumption.

--In reality, there is not a lack of oil in Europe; even so, there is severe allocation.

--Immediately, there is a psychological effect and a lesson for the future.

B) Six Day War-1967:

--On 6 June, the Arab countries declare a "complete boycott," stop pumping oil, and Egypt once again closes the Suez Canal. Before the boycott, the Arab countries supply Europe some 355 million tons per year, 80% of all oil consumption.

--Algeria unilaterally continues to supply France.

--On 15 June, the Arab countries renew pumping oil. They cannot stand the loss of 90% of their income for a sustained period.

--The radicals, Iraq and Libya, resume oil pumping two weeks later.

--The "full boycott" is replaced by a "selective boycott" only against the Israeli friends (the U.S., West Germany, and the U.K.).

--On 1 September 1967, the "selective boycott" is cancelled under the terms of the Khartoum Conference.

--During the entire period, there is enough oil in Europe, while a wild competition rages between the producers in an attempt not to lose the "old markets."

C) Yom Kippur War-1973:

--The war begins with relative military achievements on the parts of Egypt and Syria.

--The "oil producers" take the U.S. to task for her aid to Israel during the war.

--The largest "oil producers" have significant investments in the Western countries and hesitate between taking a "radical" or a "moderate" step.

--The solution is for Saudi Arabia to return to the same production level she maintained before the war (8.5 million barrels per day).

--"Substitute pressures" and memories from 1967 make it possible to increase the profit per barrel almost four times in one month, from \$1.57 to \$7.29 per barrel.

D) Iraq-Iran War-1979-80:

--At the beginning, both countries lose significant production.

--Other producers, particularly Saudi Arabia, step in and make up for the loss.

--In the first stage, Saudi Arabia balances the shortage by increasing production. World market supplies are adequate.

--In April 1979, Saudi Arabia cuts production from 10.4 million bbl/day to 8.5 million.

--This action produces an atmosphere of shortage in the international market. Prices soar steeply.

--After a short period, Saudi Arabia increases her production from 8.5 million bbl/day to 9.5 million bbl/day (still 900,000 bbl/day less than before).

--The price for oil rises from \$15.19 per bbl in January to the staggering figure of \$39.75 in November 1980. (See Table 5)

Conclusion: The Arab countries do not have enough power to declare a total boycott of a long duration. By exploiting the dependence of the Western countries on a sure flow of oil, they chose to create an artificial panic situation that led to "imaginary price increases" that have done real damage to the whole world economy. It is very hard to assume that this kind of phenomenon will happen again in the future. The Arabs have huge investments in the Western countries that they must protect. They need to protect themselves from the "threat in the East," as well. And the only way they can assure this kind of protection is to insure the West continues to receive a steady flow of petroleum, even though the amount may be somewhat less than the optimum desired. Only in this way, can these oil producing countries continue with the grandiose development plans that they have set for themselves.

CHAPTER VII

ASYMMETRIC SAUDI/U.S. CONNECTIONS

The relationship between Saudi Arabia and the U.S. is a model of asymmetry. On the one hand is a superpower, which has vast resources; on the other is a financial colossus whose only resource is oil, which has the power to influence other countries' thinking where it is concerned. Saudi Arabia lacks the most important elements to create an "international intensity"--she lacks an industrial base and developed technology; further, she does not have a military force that is supported on this industrial and technological base. So, she has a narrow productive base, a small local population, and a relatively small army. Her ability to influence the steps the U.S. takes is only because she has the ability to undermine the balance of "world energy" by changing her oil policy. The U.S. is particularly strong militarily, and she possesses the world's most advanced technology. Her ability to influence Saudi Arabia is conditioned not only by her readiness to protect the Saudi regime but also her readiness to threaten that regime should the situation warrant.

The asymmetry of the relationship lies in the Saudis' readiness to use the "oil weapon" to achieve political goals and, at the same time, U.S. unwillingness to use her power to seriously threaten the Saudi regime.

In 1981, U.S. Defense Secretary Caspar Weinberger said, "There are no alternative to the numerous oil fields that Saudi Arabia has, the U.S. and her allies needing them. The flow of oil is vital to the whole

world finance system, to the American market, to the world trade and for the employment all over the globe. The destruction of the oil installations in Saudi Arabia or their fall to a hostile power could change the whole world forces balance." (7-A). President Ronald Reagan also dealt with this issue in 1981. He said, "We couldn't stand aside and let someone close this flow of oil." (7-B) The message hidden in these two statements is very simple: The U.S. has a clear obligation to protect the Saudi regime, its borders and the oil fields. The Western world needs the Saudis' oil and, should the oil stop flowing, the Western economy will collapse before the Saudis have to lower their living standard. Not all experts agree. The main disagreement is on the question of what will happen if, in the future, buying oil becomes too expensive or the demands too large concessions. In this situation, will the U.S. seize the oil fields?

Expert Claus Knorr argues on this issue:

Using the military option is not actual. The U.S. has the ability to cause numerous damage to the oil producers, but the threat of doing this--small credibility, because everyone understands that this action could cause the U.S. more damage than utility. In a case like this, the Arabs could sustain U.S.S.R. support, and there will be a severe anti-American reaction, even in Western Europe and Japan. (7-C)

In contrast, expert Walter Levi argues:

The importance of oil supply at reasonable prices is so high that Western military intervention is very possible if the countries in the Persian Gulf will suddenly reduce their oil export or if they raise prices to an "irrational level." The readiness of the West to use this deterrence is the main security to the hope that it will never be necessary to put this force to test. (7-D)

It is very important to mention that since 1973, the Saudis have devoted a huge effort in the "public relations domain." They are trying at all times to succeed in building for themselves an image as the only "moderate factor" in OPEC and, eventually, the only factor that considers U.S. interests. I will describe some events from the recent past, events that will show very clearly that they have done and continue to do only what is to their best advantage.

A) Oct '73 Yom Kippur War--The Saudis reduce their production by 1.9 million bbl per day and use an artificial shortage to drive the price per barrel from \$3.03 in Oct '73 to \$11.65 in Jan '74. Their "justification" for the price increase--they "found" the Shah guilty because he wanted to raise the prices even higher and that their stance caused a "relatively moderate increase. (7-E)

B) Dec '77 OPEC Conference--The Saudis fear the "increasingly growing forces" in Iran. Their requests to the United States to stop the flow of sophisticated weapons to Iran are postponed as they once again choose to rely on the "oil weapon." At the conference, they lead in the decision to increase the price off oil "only 5%," 10% less than what the Iranians request. In so doing, they gain twice--in the first place, they gain favor in Western eyes as a "moderate power" that worries about Western interests; in the second, they deny potential income to the Iranians, effectively denying them the revenue to purchase the sophisticated weapon systems that Arabia fears could be used against her. The Shah of Iran called this "a direct, aggressive action against Iran." (7-F)

C) End of '78--Iranian Revolution--The stoppage of the flow of oil from Iran gives the Saudis a good opportunity to increase the oil price, but they do not want to disturb their image in the U.S. as a moderate nation whose leaders care about what is good for the West. They, instead, choose to reduce their production in a very moderate way during the crisis. In January, they reduce production by 600,000 barrels per day. This action leads directly to "artificial pressure," and the price increases from \$16.00 to \$21.00 per barrel. In April 1979, the Saudis once again reduce their production by more than one million barrels per day, immediately causing a jump in price from \$21.00 to \$34.00 per barrel. In July 1979, they "consider" the Western requests and increase their production by a million barrels per day, but they announce that this increase is only for three months. This statement, instead of causing the market to relax, causes the price of oil to continue to spiral upward till the "imaginary" price of \$39.00 per barrel is reached. (See Table 5)

D) AY 81--Oil prices reduce significantly. There is too much oil in the international market. The Saudis fear a "destructive price war," and they reduce production to 8.5 million barrels per day. This reduction stabilizes oil prices at what they look at as "reasonable prices." These, of course, are much higher than their "vital minimum income." Again, this process is presented as one designed to help the Western world, but, in fact, it stems from fear of internal price wars in OPEC and a loss of revenues. (7-H)

E) July '79--The Israeli-Egyptian Peace Process: The Saudis are not satisfied with the peace process. After they have caused the "wild price increases," they agree to increase their production

again (look at paragraph 3). The letter with the promise to increase production is delivered to Ambassador Robert Strauss who serves as mediator between Israel and Egypt. The "clear hint" that accompanies the request/demand from Saudi Arabia to the United States is to begin a direct negotiation with the PLO, and Emir Fahd stigmatizes the "Camp David Agreement." (7-I)

What can we learn from these examples? We can learn that the Saudis will look out for their own best interests in any situation in which they find themselves. The survival of the current regime is the paramount national interest at the present time. They build their ability to influence, particularly by creating an "uncertain atmosphere" and then by putting "psychological pressure" on other states and their governments they create an artificial demand for oil, a demand they then step in to satisfy. This demand leads to early agreements and exaggerated payments. Market instability is their best weapon and always in an uncertain situation, all the experience and lessons from the past are forgotten, and the same mistakes are made again.

Actions by several large oil companies illustrate this fact. Shell Oil determined clearly that the "uncertain situation about the readiness of OPEC" to produce enough oil, especially after the Iranian crisis, introduced an entirely new factor in the pricing of oil." Exxon determined that the "decision of the Western countries not to utilize their strategic stocks" during the crisis in 1979 (7-J), showed that the fear of the future is even greater than the anxiety for the present." (7-K)

Now is a good time to assess whether the Saudis really have the ability to change their oil policy in a radical way. My answer to this is that they do not have the ability; further, they do not have the desire to bring the Western countries to a "threshold of confrontation." And, finally, the Saudis realize (in contrast to the U.S. and other Western countries) exactly what power they really do have. There are many examples that point to these three conclusions, and I will set some of the forth as a means of explanation.

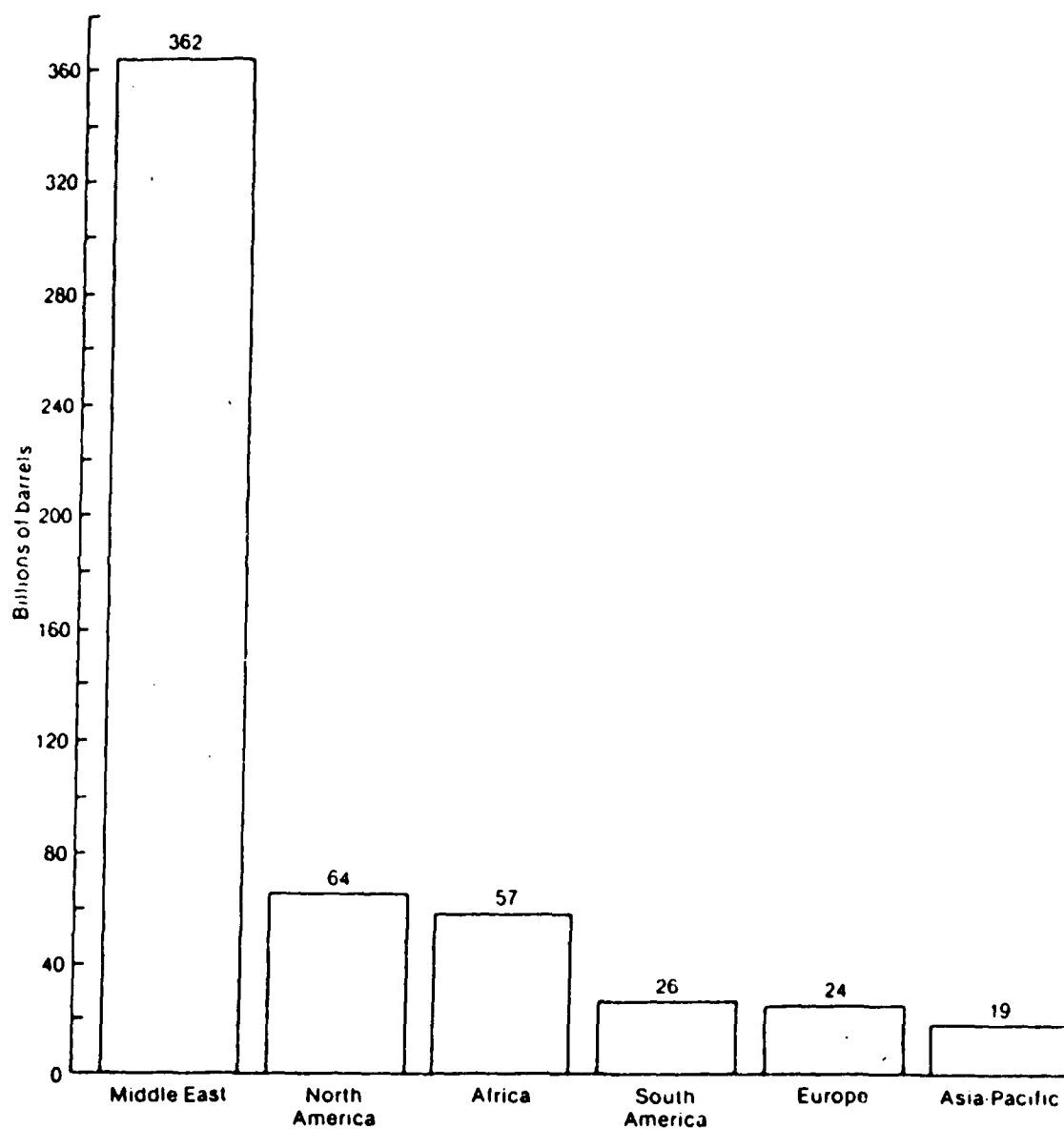
A) Since 1973, the Saudis have not employed the "oil weapon" on a massive scale. They did not invoke it when Israel took out the Iraqi nuclear reactor in June 1981. Nor did they invoke it when Israel attacked the terrorist headquarters in Lebanon a month later. They refused to use this weapon in spite of great pressure from the radical Arab countries.

B) During the years 1981-1982, Saudi Arabia demanded the U.S. award the PLO status as an observer in the annual conferences of the International Monetary Fund and the International Bank. They demanded this as a term for their granting a \$10 billion loan to the International Monetary Fund. The U.S. postponed this demand, and, even so, Saudi Arabia granted the loan without delay. (7-L)

C) In October of 1980, Saudi Arabia threatened the U.S. that if she did not stop filling her strategic storage reservoir they would lower their production. The U.S. postponed this demand, and the Saudis (of course) did not carry out their threat.

The message here is very clear--the security of Saudi Arabia is directly dependent on U.S. force and the "Western Power." The Saudis ability to change the level of the oil prices and the quantities of oil

Table 6 — Regional Distribution of Non-Communist Oil Reserves



SOURCE: *Oil and Gas Journal*, Dec. 31, 1979, pp. 70-71

Table 5
Production, Capability, and Prices--Aug 78-Oct 81

Month/Year	Production Million Bbl/day	Capability	Price \$ per bbl
7/78	6.90	10.5	12.97
9/78	8.10	"	12.80
10/78	9.00	"	12.85
11/78	9.95	"	13.20
12/78	10.10	"	14.50
1/79-3/79	9.50	"	15.95-20.80
4/79-6/79	8.50	"	21.20-34.25
7/79-12/79	9.50	"	32.00-39.00
1/80-9/80	9.50	"	38.00-32.25
10/80	10.30	11.0	36.80
11/80	10.10	"	39.75
12/80-2/81	10.00	"	39.35-37.00
3/81	9.85	"	36.50
4/81	10.00	"	34.75/
5/81	9.90	"	33.50
6/81	10.00	"	31.50
7/81	10.01	"	31.90
8/81	10.20	"	31.90
9/81	9.20	"	32.15
10/81	9.60	"	33.00

Resources: PIW, Feb, Oct, Nov 81
Petroleum Economist

Table 4

The Value of Arab Investments Abroad (\$ Billions)

COUNTRY	1976	1977	1978	1980
Saudi Arabia	56	68	77	125
Kuwait	25	31	38	
Libya	6	8	9	
Iraq	5	7	8	
Qatar	4	5	5	
U.A.E.	12	16	21	
TOTAL	108	135	158	

1) SAMA Review, 1979-80, Mees, 27 Aug 81.

2) World Financial Markets, Nov 77.

TABLE 3

AVERAGE PROFIT PER SAUDI EXPORT BARREL
1955-1980

<u>Year</u>	<u>Profit in \$ per Barrel</u>
1955	0.82
1960	0.75
1965	0.83
1970	0.88
1971	1.26
1972	1.44
1973	1.57
1974	7.29
1975	9.92
1976	11.03
1977	12.77
1978	12.11
1979	16.71
1980	29.66

Resource: PIW 24-12-73
 "Oil Industry Developments," May-June 1979
 PIW 23-2-81
 PIW 29-6-81

TABLE 2
OPEC PRODUCTION DATA

Country	Reserves in Billion Barrels	1979 Crude Oil Production in Million Barrels Per Day	(Reserves) (1979 Production)	Yrs. Current Production Could Be Sustained With No Additions to Reserves
Saudi Arabia	163.4	9.245	48.4	40.4
Iraq	31.0	3.435	24.7	16.7
Iran	58.0	3.035	52.4	42.4
United Arab Emirates	29.4	1.835	43.9	35.9
Kuwait	65.4	2.215	80.9	72.9
Algeria	8.4	1.025	22.5	14.5
Ecuador	1.1	.215	14.0	6.0
Gabon	.5	.205	6.7	0.0
Indonesia	9.6	1.590	16.5	8.5
Libya	23.5	2.065	31.2	23.2
Nigeria	17.4	2.305	20.7	12.7
Qatar	3.8	.505	20.6	12.6
Venezuela	17.9	2.355	20.8	12.8

* Assuming reserves to production ratio of 8 to 1 would be feasible.

Source: OTA

Table 1

Foreign Residents in Saudi Arabia* 1980

Yemenis	600,000
Egyptians	300,000
Palestinians and Jordanians	100,000
Sudanese	50,000
Lebanese	15,000
Syrians	40,000
Other Arabs	10,000
Koreans	100,000
Thais	50,000
Filipinos	200,000
Chinese	7,000
Indonesians and Malays	15,000
Indians	75,000
Pakistanis	300,000
Bangladeshis	15,000
Sri Lankans	5,000
Turks	40,000
Afghans	20,000
Somalis	50,000
Other Muslims	5,000
Japanese	5,000
American	40,000
German	10,000
French	15,000
Italian	13,000
Swedes	3,000
Greeks	10,000
Other Europeans (includes Canadians and Australians)	10,000
Total:	2,103,000

Saudi Population and Work Force, 1980

I.	Overall Saudi Population	4,300,000
	Males	2,100,000
	Females	2,200,000
II.	Saudi Work Force	1,100,000
	Agricultural	410,000
	Regular Armed Forces	53,000
	National Guard Frontier Forces	30,000
	Government	27,000
	Other (non-Agriculture/Private Sector)	580,000
	Males	1,092,000
	Females	18,000
	Conscription age Males (16-45)	825,000
III.	Non-Saudi Work Force	2,095,000

- 19) 7-E Financial Times, 6/10/74, p. 19.
- 20) 7-F U.S. Senate. "Access to Oil--The U.S. Relationship with Saudi Arabia and Iran," GPO, Washington, D.C., 1977, p. 61.
- 21) 7-G Deutsche Shell . "Perspektiven der Energieversorgung," Oct 80, pp.12-13.
- 22) 7-H PIW, 10/12/81.
- 23) 7-I Theodore H. Moran, "Oil Prices and the Future of OPEC," Resources for the Future, Washington, D.C., 1978, p. 17 and p. 89.
- 24) 7-J Deutsche Shell. "Perspektiven der Energieversorgung," Oct 80, pp. 12-13.
- 25) 7-K Exxon. "World Oil Inventories," Mees, 9/21/81, Supplement, pp. 5-7.
- 26) 7-L "Economist," 4.4, 81
- 27) 7-M "Oil and Gas Journal," 6/23/80
- 28) 8-A "World Petroleum Availability 1980-2000," Oct 1980, pp. 7-13.
- 29) 8-B Ibid., pp. 14-32.
- 30) 8-C Ibid., pp. 66-69.

BIBLIOGRAPHY

- 1) 1-A Air War College Politico-Military Simulation--1984.
- 2) 1-B "Fronts," Israeli Magazine, p. 154.
- 3) 1-C Ibid., p. 54.
- 4) 2-A "Saudi Arabia--A Confrontation State?," Israel, Jan 82, pp.59-74.
- 5) 3-A "Oil in the Middle East--Blessing or Threat?," Binyamin Shvadron, Israel, 1980, pp. 179-233.
- 6) 4-A "International Aspects of Saudi Arabia's Oil Policy," Eli Arom, Israel, 1982, pp. 27-34.
- 7) 4-B Data From Petroleum International Weekly, 10/12/81.
- 8) 4-C Ibid., p. 1109.
- 9) 4-D PIW, 9/28/81.
- 10) 4-E Lecture, "The Connections Between the U.S. and the 'Arabic World'," Dr. Gad Gilber, Israel 1979.
- 11) 4-F "Saudi Arabia in the 80's," Month Review, No. 2, Dr. Jacob Goldberg, Israel, Sep 1981.
- 12) 5-A Ibid.
- 13) 5-B "Saudi Arabia--A Confrontation State?," Israel, Jan 82, pp. 59-75.
- 14) 6-A "Saudi Arabia in the 80's, Dr. Goldberg.
- 15) 7-A USICA official text, (Without date), The speech was on 28 Sep 81.
- 16) 7-B USICA official text, 10 May 81, pp. 5-7.
- 17) 7-C Claus Knorr, Foreign Oil and National Security," in Oil, Devestiture and National Security, Frank N. Trager (ed.), Crane, Russak and Co., New York, 1977, p. 117.
- 18) 7-D Walter J. Levy, "An Atlantic-Japanese Energy Policy," (Delivered at the European-American Conference in Amsterdam, 3/27/73).

I have no doubt that during the last 18 years, the Saudi leaders have known and understood exactly the weaknesses of the democratic countries. They understand very well what "public pressure" means--"election" and "standard of life"--and they used this knowledge to make more and more money, and to possess political power in the international arena.

Today, I believe that that kind of power no longer exists. The Saudi society is undergoing a barrage of rapid changes. OPEC as an organization faces constant internal pressures. Saudi Arabia, herself, faces threats from her neighbors and from Russia now more than ever before. The Saudis desire to keep their achievements from the past and to continue their "grandiose development plan." These factors give the U.S. the opportunity to show her power--the only power that can protect the current Saudi regime. The Saudis' ability to influence the process of "decision making" in the U.S. is an "imaginary ability." This power does not exist at all if the U.S. will conduct herself according to the power and status that she has. Today, more than ever before, the Saudis are dependent on the U.S., and this situation will continue for the foreseeable future.

CHAPTER IX

CONCLUSION

The goal of this work has been to analyze Saudi Arabia as a phenomenon that is unparalleled and to examine the relationships between Saudi Arabia and the United States.

In my conclusion, I will mention again what should be patently obvious--Saudi Arabia is a very weak country, a country that is surrounded by enemies. Further, it is a country lacking in technological and scientific backgrounds, its population at the same time small but highly diverse. Most particularly, it is a country with the kind of "backward regime" that operates without a constitution and relies on systems of leadership that were discarded by the "modern world" in the 18th-19th Centuries.

The regime finds itself possessing a real treasure, and, by utilizing it in a very smart way, they have been able to generate some "artificial crises" that have led to changes in most of the societies on our globe. They took these steps without any opposition from the Western world and most especially from the U.S. It seems to me that the U.S. has forgotten or does not want to remember that she also has enormous power, a power that can completely nullify the "exploitative means" that have been used by the Saudi leaders. Instead of using this power, the U.S. has chosen to submit to any and all irrational demands, and by doing this they have set the stage for a repeat performance in a very short period later.

--The U.S. will continue to import her oil from a variety of countries. The distribution of the import as reflected in the year 1982 is expected to continue. In this year the U.S. imported oil as follows:

Mexico	18.5%
Saudi Arabia	15.2%
Nigeria	14.6%
U.K.	12.6%
Indonesia	6.4%
Canada	6.1%
Venezuela	4.4%

And from these data and the implications, I drive myself quickly to my forecast:

--There is no evidence for U.S. market dependence on Saudi oil. There is more to fear from a change in OPEC policy (like price increases) than from a unilateral use of the "oil weapon" by the Saudis.

--Even the "dependence theory" will diminish in importance in the future as the relationships with such oil producers as Iraq, Kuwait, and Indonesia firm up.

--It is necessary to develop "substitute energy resources" to reduce the possibility of pressure by the oil producers in the event of a political crisis, or whatever.

--It is equally vital to provide for a strategic "storage reserve" in each industrial country to reduce the possibility of "energy blackmail" by the oil producing nations.

--The large oil producing nations in the Middle East can expect to be under Soviet threat should the Russians not find additional new oil fields to supply themselves and their fellow communist nations; therefore, the value of this region will continue to grow.

--U.S. protection of the Saudi oil fields is an essential condition to keep the existing regime in power and to continue the "development process."

--The Saudi regime has great interest in the continued "strong Western economy because the it is very much dependent on the U.S. and her allies; hence, the U.S. and other Western countries have a great ability to influence the leaders in Saudi Arabia.

--Finally, the threat of again using the "oil weapon" by declaring "boycott" is one without teeth--none of the producers can any longer profit from a step such as this.

- G) The "not yet proved" reserves are estimated to be between 1360 and 1960 billion bbls. Again, 50% of this amount exists in the Middle East. (It must be understood that these figures are tentative and have no solid basis in proof.) (See Table 9)
- H) The oil from the proved fields is expected to be sufficient until the year 2030, particularly if the moderation in consumption begun in 1980 continues. (In that year, world oil consumption was some 17.6 billion bbls.)
- I) Since 1973, OPEC production has averaged some 31 million bbls per day, a production rate that is expected to continue for the next 50 years. (See Table 10)
- J) The process of reducing consumption from internal sources in the U.S. will continue. The reduction from 8.5 million bbls of domestic oil per day to 5 million will increase the domestic fields' lifespans from 8.5 to 14.5 years.
- K) If, in the near future, the U.S.S.R. does not discover any new oil fields, then an energy shortage of 1.9 million bbls per day can be expected in the supply of the U.S.S.R. to other communist countries. (8-C) (8-A)

The Implications of the Data:

--There is no reason for a shortage of oil even after the year 2000. The existing oil resources are sufficient to answer any demand placed on them.

--The Middle East will continue to play a large role in this game. Saudi Arabia will continue to lead OPEC, with an expected growth of Iraqi participation.

--Oil consumption will continue to decline on a global scale as alternative sources such as solar and nuclear energy, as well as natural gas, start to replace oil in many domains. Even so, oil will continue to be the energy source of choice for day-to-day use.

CHAPTER VIII

THE FUTURE--ANALYSIS AND FORECAST

Most of the oil experts agree that to predict the course, the development and the prices of oil in the near future is a very uncertain forecast. The examples that we have from the past teach us that assumptions that were bases for models and research were immediately cancelled after the "boycott declaration." Prices increased to levels no one ever thought they would reach. Therefore, a look at only the very near future, the year 2000, is my intent here. Most experts agree with the 11 assumptions that I set forth here:

- A) The world oil consumption will reduce moderately till the year 2000 with increasing development of "substitute energy resources.
 - B) The Middle East will continue to be the "world's main oil field." (Table 6)
 - C) Today's 25 largest oil fields, producing 80% of all the world's oil, will continue as the main fields even after the year 2000. (8-A)
 - D) The new fields that are expected to be discovered will lie in zones where production will be very difficult, and a long time will pass before full commercial exploitation. (8-A) (8-B)
 - E) The proved oil reserves in 1980 were estimated to be 551 billion barrels--63% of this (351 billion barrels) lie in the Persian Gulf area.
 - F) Of this total, Saudi Arabia has 163 billion bbls--30%

Kuwait	65	11.8%
Iran	53	10.5%
Iraq	31	5.6%
U.S.	26.5	4.3%
- (8-B) (See Tables 7 and 8)

produced is an ability that relies entirely on the West's agreement to these changes. The Saudis do not have any intention of carrying out any step that could bring the U.S. to take drastic measures. Even so, there is still a small chance that they might undertake such steps, but, then, one has to allow for all possible contingencies when planning.

Table 7 NON-COMMUNIST WORLD PROVED CRUDE OIL RESERVES

BILLION (10⁹) Barrels
January 1, 1980¹

OECD GROUP COUNTRIES

United States	26.5
Canada	6.8
Western Europe	23.4
Japan, Australia, N.Z.	2.1
TOTAL	58.8

NON-OPEC DEVELOPING COUNTRIES

Latin America	
Mexico	31.2
Other	7.3
Africa	7.2
Middle East	4.5
Asia	7.6
TOTAL	57.8

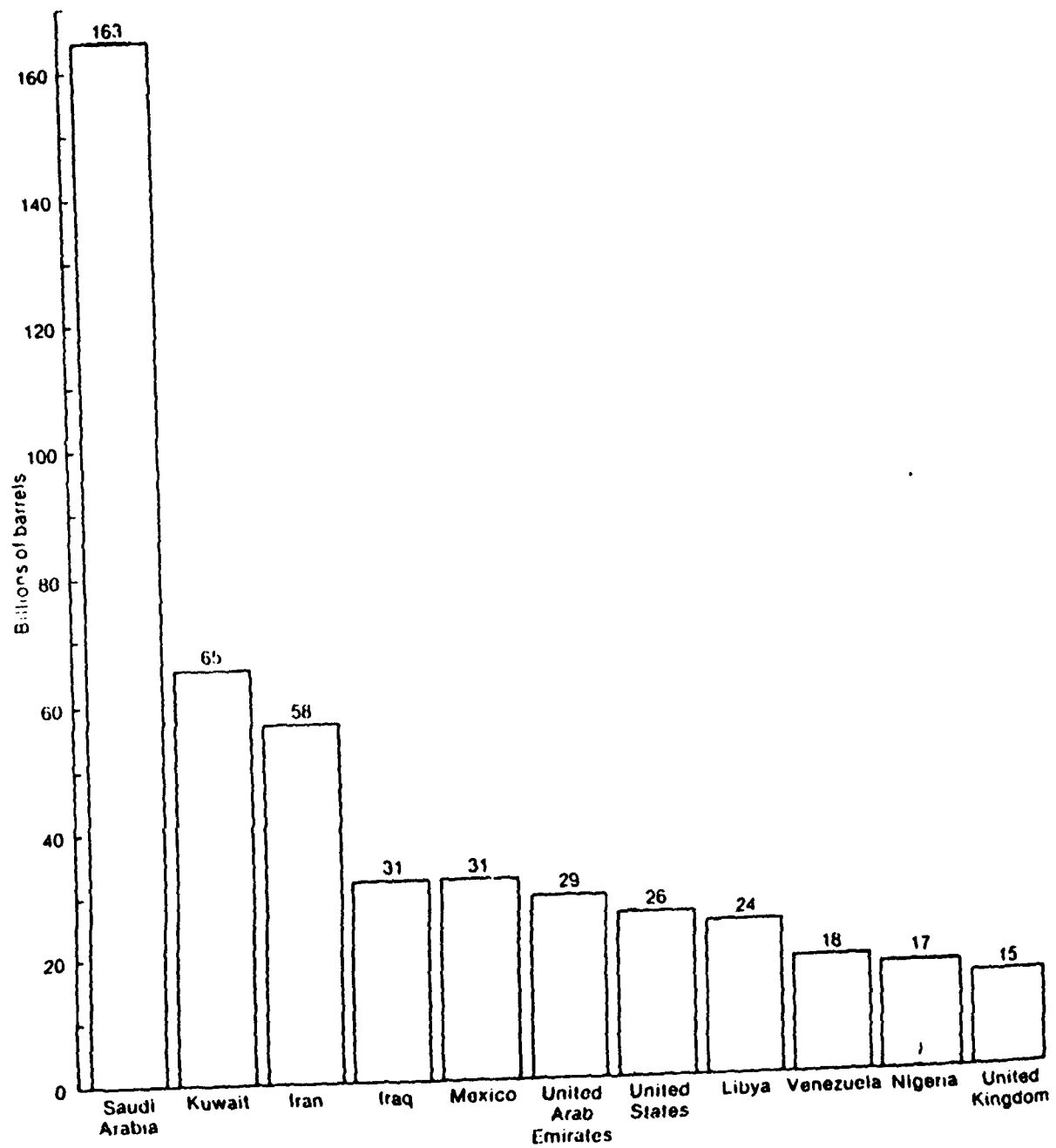
OPEC

Saudi Arabia	163.4
Iran	58.0
Iraq	31.0
Kuwait	65.4
UAE	29.4
Qatar	3.8
Neutral Zone	6.3
Nigeria	17.4
Libya	23.5
Algeria	8.4
Gabon	.5
Venezuela	17.9
Ecuador	1.1
Indonesia	9.6
TOTAL	435.7

Total Non-Communist World 551.6
(totals do not add due to rounding)

¹ Oil and Gas Journal, December 31, 1979, pp. 70-71.

Table 8 — Non-Communist Countries With Reserves in Excess of 10 Billion Barrels



SOURCE: *Oil and Gas Journal*, Dec. 31, 1979, pp. 70-71

ULTIMATELY RECOVERABLE WORLD CRUDE OIL RESOURCES**

	Known	Additional Recovery ¹	Additional Recovery ¹ & New Discoveries	Ultimately Recoverable Estimate	Cumulative Production Through 1975	Remaining Resource**
North America*	179.8	43-95	100-200	280-380	122	160-260
South America	68.4	20-40	52-92	120-160	41	80-120
Western Europe	24.6	5-10	25-45	50-70	3	50-70
Eastern Europe/ Soviet Union	102.4	20-40	63-123	165-225	51	110-170
Africa	75.6	15-30	45-94	120-170	21	100-150
Middle East	509.9	250-400	350-630	860-1140	85	780-1060
Asia/Oceanic	50.8	15-25	54-104	105-155	13	90-140
Unspecified	X	50-90	X	X	X	X
Total**	1000	420-730	700-1300	1700-2300	336	1360-1960

** May not add due to rounding

¹ In known fields

* (includes Mexico)

Source: Nehring: Giant Oil Fields and World Oil Resources, Rand Corp., June 1978, p. 88.

Table 9

Table 10

NO. 992. CRUDE OIL IMPORTS INTO U.S., BY COUNTRY OF ORIGIN: 1970 TO 1982

COUNTRY OF ORIGIN	IMPORTS (mil. 42-gal. bbls.)												PERCENT DISTRIBUTION			
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1970	1975	1982
Total	483	1,184	1,269	1,496	1,936	2,414	2,320	2,360	1,936	1,905	1,273	100.0	100.0	100.0		
Canada	245	365	299	219	136	102	90	98	73	60	78	50.7	14.6	6.1		
Mexico	-	(2)	1	26	32	85	115	160	186	171	235	-	1.7	18.5		
Norway	-	-	(2)	4	13	18	38	26	53	42	37	-	.3	2.9		
Trinidad-Tobago	(2)	22	23	42	38	49	57	45	42	37	34	(2)	2.8	2.7		
United Kingdom	-	-	-	-	5	36	62	72	63	135	161	-	-	12.6		
OPEC	222	767	926	1,171	1,663	2,068	1,892	1,868	1,414	1,067	633	66.8	78.3	49.7		
Algeria	2	44	66	86	149	196	231	222	167	95	33	.4	6.4	2.6		
Ecuador	-	17	15	21	19	20	14	11	6	14	12	-	1.4	.9		
Gabon	-	-	8	10	10	13	14	15	9	13	14	-	.6	1.1		
Indonesia	26	73	103	136	186	185	195	136	115	116	82	5.4	9.2	6.4		
Iraq	12	79	169	102	109	153	202	108	3	-	13	2.5	6.8	1.0		
Kuwait	-	2	-	(2)	10	27	23	32	10	-	1	-	(2)	.1		
Libya	12	15	2	1	(2)	15	2	2	10	-	1	2.5	.1	1		
Nigeria	17	49	1	81	162	257	233	224	200	116	8	3.5	5.4	.6		
Qatar	17	164	254	272	371	412	332	360	304	223	186	3.5	18.2	14.6		
Saudi Arabia	-	3	6	7	9	24	23	11	8	3	3	-	5	2		
Saudi Arabia	15	189	160	253	447	501	417	492	458	405	194	3.1	17.1	15.2		
United Arab Emirates	23	26	25	43	83	122	141	103	63	28	30	4.8	2.9	2.4		
Venezuela	86	126	116	144	88	91	86	107	57	54	56	20.3	9.6	4.4		
Other	16	30	30	35	46	86	71	110	85	93	95	3.3	2.3	7.5		

- Represents zero. Z Less than 500,000 or less than .05 percent

Source: 1970-1978, U.S. Bureau of Mines, *Minerals Yearbook and Mineral Industry Surveys*; 1977-1980, U.S. Energy Information Administration, *Petroleum Statement*, annual, thereafter, U.S. Energy Information Administration, *Petroleum Supply Annual*

END

FILMED

11-85

DTIC